82-1665

No.

IN THE

Supreme Court of the United States

October Term, 1982

ILLINOIS TOOL WORKS, INC.,

Petitioner,

v.

GRIP-PAK, INC.,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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QUESTIONS PRESENTED FOR REVIEW

In an earlier action in the Illinois courts, petitioner Illinois Tool Works Inc. ("ITW") sued respondent Grip-Pak, Inc. ("Grip-Pak") to bar misappropriation of ITW's trade secrets. The state trial court denied relief but also rejected Grip-Pak's claim that ITW's action had been brought maliciously. The court expressly found that ITW's "bringing and prosecuting this case was not malicious". Respondent did not appeal that non-malice finding, but instead instituted this federal antitrust action claiming that petitioner's state-court action violated the Sherman Act and caused it injury.

The questions presented are:

1. Whether under the *Noerr-Pennington* doctrine a state-court action, brought *with* probable cause and *not* maliciously, can be deprived of its First Amendment protection solely on the basis of the state-court plaintiff's alleged anti-competitive intent.

2. Whether the state court's non-malice finding can be denied full faith and credit under 28 U.S.C. § 1738 and this Court's decision in *Kremer* v. *Chemical Construction Corp.*, 102 S.Ct. 1883 (1982).

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PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

Petitioner prays that a writ of certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Seventh Circuit entered in this action on November 24, 1982, reversing an order of the District Court granting summary judgment in favor of petitioner.

OPINIONS BELOW

The opinion of the Court of Appeals is reported at 694 F.2d 466 (7th Cir. 1982) and is reproduced in Appendix A. The order of the Court of Appeals denying rehearing and amending its opinion is reproduced in Appendix B. The memorandum opinion and order of the District Court is unofficially reported at 1982-1 Trade Cases ¶ 64,451 (N.D. Ill. 1981) and is reproduced in Appendix C. (The Appendices are referred to herein as, e.g., "App. A, p. __".)

JURISDICTION

The final judgment of the Court of Appeals was entered on November 24, 1982. The Court of Appeals denied petitioner's petition for rehearing on January 12, 1983. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

The First Amendment to the United States Constitution provides:

> Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.

28 U.S.C. § 1738 provides in pertinent part:

> The records and judicial proceedings of any Court of any such State, Territory or Possession . . . shall have the same full faith and credit in every court within the United States and its Territories and Possessions as they have by law or usage in the courts of such State, Territory or Possession from which they are taken.

STATEMENT OF THE CASE

A. The Parties

Since 1960 petitioner ITW[1] has manufactured and marketed a plastic multi-pack carrier known as the "Hi-

[1] Pursuant to Rule 28.1 of the Rules of the Supreme Court, as amended, petitioner provides the following information about its subsidiaries (except wholly-owned subsidiaries) and affiliates: Packaging Leasing Systems Inc.; Arrendadora Tlalnepantla, S.A. de C.V.; Envases Multipac, S.A. de C.V.; INCAP-Industria de Carregadores Plasticos S.A.; Inmobiliaria Cit., S.A. de C.V.; ITW Mapri Industria e Comercio Ltda.; Multipak de Venezuela C.A.; Nifco Inc.; Nihon Devcon Kabushiki Kaisha; and Ricks Exploration Company.

Cone" carrier. Plastic multi-pack carriers are devices used for holding together clusters of containers (primarily the familiar plastic holder of "six-packs" of canned beer and other beverages).

The two principals of respondent Grip-Pak, Michael Kovac and Ernest Cunningham, were formerly employed by ITW. They formed Grip-Pak in March 1972.

B. The Prior State Court Litigation

In May 1973 ITW brought suit for injunctive relief in the Circuit Court of Lake County, Illinois, seeking to enjoin Grip-Pak, Kovac, and Cunningham from wrongfully appropriating ITW proprietary rights based on secrets and confidences which were obtained by Kovac and Cunningham in the course of their employment by ITW.

In its answer Grip-Pak sought a declaration that ITW had brought the suit maliciously. During the course of the trial, the state judge denied leave to Grip-Pak to amend its counterclaim to seek damages for such alleged malicious prosecution, but Grip-Pak's malice allegation was not stricken and Grip-Pak's attorney represented to Judge Van Deusen "that the proof is already in relative to the factual evidence, the evidentiary evidence which will support our claim of malice". Grip-Pak's attorney also argued the malice issue in his closing statement and, at the conclusion of the trial, Grip-Pak asked the court to find that "the allegations of [ITW's] complaint were made without reasonable cause and not in good faith and were untrue and [ITW's] prosecution of this action was malicious" (Grip-Pak's Proposed Judgment). Similarly, in Grip-Pak's Proposed Findings of Fact (¶ 1.1), Grip-Pak stated that it was seeking "a determination that this action was maliciously filed and prosecuted by plaintiff." In Grip-Pak's Proposed Conclusions of Law (¶ 13), Grip-Pak also asked the court

to conclude that "[p]laintiff's bringing and prosecuting this lawsuit was malicious."

The state judge declined to sustain ITW's charges against Grip-Pak, but expressly rejected Grip-Pak's malice claim. Instead, in ¶ 9 of his judgment order, the state judge ruled that "[t]he plaintiff's bringing and prosecuting this case was *not* malicious." (Italics added.) Grip-Pak did not appeal this ruling.

In addition, in a post-trial motion, Grip-Pak sought the Illinois statutory remedy for the costs of defending against allegations made "without reasonable cause and not in good faith, and found to be untrue." Ill. Rev. Stat. ch. 110, § 41 (1973). The trial judge denied Grip-Pak's motion, and on appeal the Illinois Appellate Court affirmed. The Appellate Court held that (with one exception relating to failure to proceed with a noticed deposition) "we are unable to say that [the trial judge] abused his discretion in denying that motion." *Illinois Tool Works, Inc.* v. *Kovac*, 43 Ill. App. 3d 789, 799, 357 N.E.2d 639, 646 (1976). Grip-Pak's petition for review of that ruling was denied by the Illinois Supreme Court.

C. The Proceedings Below

Approximately two weeks after the Illinois Supreme Court's denial of Grip-Pak's petition, and relying primarily on ITW's unsuccessful state court action and in particular on the state court's findings that it had not wrongfully appropriated ITW's secrets and confidences (Complaint, ¶ 17(d)(1)), Grip-Pak brought this private antitrust suit. The complaint charges *inter alia* that ITW had brought the state-court suit to monopolize and attempt to monopolize the "plastic multi-pack carrier market" in violation of Section 2 of the Sherman Act (¶ 15). On that basis Grip-Pak reiterates its claim (rejected by the state court) that it is

entitled to reimbursement for its costs of defending the state suit and also seeks other damages based on the state suit.

On ITW's motion for summary judgment, with respect to Grip-Pak's claim of injury based on the state court suit, the District Court held that such a recovery was barred by the First Amendment under the *Noerr-Pennington* doctrine since the state court in that very proceeding had expressly found that ITW's "bringing and prosecuting this case was not malicious" and had specifically rejected Grip-Pak's claim of bad faith. The Court found ". . . that the issue of whether ITW's bringing the state court suit was a sham and constituted baseless litigation, was indeed decided in that same state court suit" and held "That plaintiffs are in fact and at law estopped from pursuing here the question of 'sham litigation' in the state case" and ". . . that the state court suit did not constitute sham litigation". (App. C, pp. 21, 23.)

On appeal, without even any mention of the "sham litigation" exception, the Court of Appeals reversed. In addition to disagreeing with the application of collateral estoppel (App. A, pp. 4-6), the panel concluded that—even if the state court judgment was entitled to collateral estoppel effect, and even if ITW had probable cause for bringing the state suit—the state suit was not thereby protected by the First Amendment under the *Noerr-Pennington* doctrine. The controlling test, the Court held, was the plaintiff's subjective purpose for bringing the challenged litigation, regardless of whether it had probable cause for doing so. (App. A, pp. 10-11.)

REASONS FOR GRANTING THE WRIT

I

The Interpretation Below Of The First Amendment And The *Noerr-Pennington* Doctrine Is In Direct Conflict With The Decisions Of This Court And Other Courts Of Appeals.

The decision below sets forth a wholly novel test denying First Amendment protection under the *Noerr-Pennington* doctrine[2] to litigation brought *with* probable cause and is in conflict with this Court's decision in *California Motor Transport Co.* v. *Trucking Unlimited,* 404 U.S. 508 (1972). The decision below is also in direct conflict with the decisions of other Circuits, including the recent decisions of the Eighth Circuit in *Alexander* v. *National Farmers Organization,* 687 F.2d 1173 (8th Cir. 1982), pet. for cert. pending (Dkt. 82-1324), and the Tenth Circuit in *Hydro-Tech Corp.* v. *Sundstrand Corp.,* 673 F.2d 1171 (10th Cir. 1982). In addition, the opinion adopts an unworkable test which would not only chill but would effectively abrogate First Amendment rights to seek redress in the courts.

A. The Ruling Below That A Lawsuit Brought With Probable Cause May Be Actionable, Based Solely On Subjective Anti-Competitive Purpose, Conflicts With This Court's Decision In *California Motor Transport*.

Until the decision below, and ever since this Court's decision in *California Motor Transport,* it has been axiomatic (i) that litigation is protected by the First Amendment under the *Noerr-Pennington* doctrine unless the litigation falls within the "sham exception" and (ii) that otherwise protected activity does not fall within the "sham exception"

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[2] *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); *United Mine Workers of America v. Pennington,* 381 U.S. 657 (1965).

because of an anti-competitive purpose.[3] In utter disregard of these established principles (and without even a single mention of the "sham exception"), the decision below proceeds *de novo* to hold that litigation—even though brought with probable cause—is unprotected by *Noerr-Pennington* depending solely on inquiry into the plaintiff's subjective purpose.

In *California Motor Transport* this Court extended the *Noerr-Pennington* doctrine to the adjudicatory setting and placed this protection—contrary to intimations in the opinion below (see App. A, p. 8)—on solid First Amendment footing. It held that the "right of access to the . . . courts . . . is part of the right to petition protected by the First Amendment." (404 U.S. at 513; see also pp. 510-11.)

In *Noerr* and again in *California Motor Transport,* this Court recognized a narrow exception to such First Amendment protection—i.e., attempts to influence governmental action may be actionable under the antitrust laws where they are a "mere sham". In *California Motor Transport,* this Court found that an alleged conspiratorial "pattern of *baseless,* repetitive claims"—brought with complete indifference as to whether there was probable cause for doing so, *"and regardless of the merits of the cases"*, to harass and deter competitors from having access to agencies and courts—could constitute a "mere sham". (404 U.S. at 512, 513, italics added.) The Court also cited other examples of "*illegal and reprehensible* practices which may corrupt the administrative or judicial processes" and which also may fall within the "sham exception". (404 U.S. at 513, italics added.)

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[3] See, e.g., Fischel, *Antitrust Liability for Attempts to Influence Government Action: The Basis and Limits of the Noerr-Pennington Doctrine,* 45 U. Chi. L. Rev. 80, 104-113 (1977); Balmer, *Sham Litigation and the Antitrust Laws,* 29 Buffalo L. Rev. 39, 41-46 (1980); Bork, *The Antitrust Paradox* (1978), pp. 349-357.

As stated by Judge (then Professor) Robert Bork in summarizing *California Motor Transport*:

> "*Regardless of intent*, parties can be held liable only if they employ means of influencing governmental action that are in themselves *illegal or reprehensible*. . . . Had [the *California Motor Transport* defendants] employed other means (e.g., individually opposing applicants only where the defendants in opposition had *reasonable cause* for his position), there could have been no Sherman Act liability."

Bork, *The Antitrust Paradox* (1978), p. 359 (italics added). See also Balmer, *Sham Litigation and the Antitrust Laws*, 29 Buffalo L. Rev. 39, 41, 66 (1980); Fischel, *Antitrust Liability for Attempts to Influence Government Action: The Basis and Limits of the Noerr-Pennington Doctrine*, 45 U. Chi. L. Rev. 80, 104-113 (1977); P. Areeda, *Antitrust Law* ¶ 203.la (Supp. 1982).

According to the decision below, however, the existence of "reasonable cause" and the avoidance of "illegal or reprehensible" means will not give *Noerr-Pennington* protection to the prior suit. Such a view ignores, and fundamentally conflicts with, *California Motor Transport*.

Indeed, the decision below does not interpret *California Motor;* it virtually flouts it. The opinion characterizes the principle protecting litigation under the First Amendment as merely what "[s]ome decisions state"—citing this Court's decision in *California Motor*. (App. A, p. 7; App. B.) And, as noted, the opinion below does not even mention the "sham exception", the applicability of which was the *Noerr-Pennington* issue decided by the District Court and briefed and argued below. Such silence is perhaps not too surprising, since it is difficult to conceive how *a non-malicious suit brought with probable cause* could possibly be characterized as a "mere sham".

B. The Decision Below Is In Direct Conflict With Recent Decisions Of Other Courts Of Appeals.

As the opinion itself acknowledges (App. A, p. 11), the decision conflicts with the Eighth Circuit's recent decision in *Alexander* v. *National Farmers Organization*, 687 F.2d 1173 (8th Cir. 1982), pet. for cert. pending (Dkt. 82-1324). In *Alexander*, the Eighth Circuit found that lawsuits brought by milk cooperatives against NFO, not for their own sake, but instead to pursue other goals (precisely of the type mentioned in the opinion below—App. A, pp. 9-10), were nonetheless protected by *Noerr-Pennington*. The Court stated (687 F.2d at 1200):

> "We recognize that the litigation directly against NFO was intended in part to hamper NFO's ability to compete. The burdensome cost of the litigation was one factor. Notes from internal AMPI meetings and corroborating testimony show, for example, that senior AMPI officials considered sponsorship of additional third-party litigation against NFO in the hope that the added cost of such litigation would 'break NFO's back.' Such third-party litigation was filed and was conducted by the same attorneys who represented AMPI, although the record does not clearly establish that it was brought in bad faith. Other evidence as to the goal of the litigation is that when Mid-Am commenced its action, it intended to have its membership certified as a class so as to restrict communication by NFO with Mid-Am's members during the pendency of the litigation. Mid-Am's action was also selectively directed at NFO: Mid-Am did not bring actions against other co-ops that the court found had solicited Mid-Am members to breach their Mid-Am marketing contracts. . . .
>
> "Notwithstanding the foregoing evidence of intent, we cannot say that the legal claims against NFO were so groundless as to come within the 'sham litigation' exception to the *Noerr-Pennington* doctrine. There were genuine disputes regarding NFO's solicitation methods. Thus, in our view, the direct litigation against

NFO is not actionable as an antitrust violation." (Footnote and citation omitted.)[4]

The decision below also conflicts with the Tenth Circuit's recent decision in *Hydro-Tech Corp.* v. *Sundstrand Corp.*, 673 F.2d 1171 (10th Cir. 1982), dealing with an almost precisely parallel factual situation—a prior suit brought by the antitrust defendant against an ex-employee's company for misappropriation of proprietary rights. The Tenth Circuit (affirming the grant of a pre-trial motion to dismiss) held "that the prosecution of a lawsuit, albeit *without probable cause and for an anticompetitive purpose*, is actively protected by the first amendment and therefore immune from attack under the antitrust laws" (p. 1172, italics added).

According to the Tenth Circuit, after reviewing this Court's decisions, "It cannot be said, therefore, that the filing of a lawsuit is transformed into a 'sham' *merely because the primary intent of the lawsuit's instigator is to do harm to the business of a competitor*" (p. 1175), and "[T]he filing of a lawsuit, *albeit without probable cause and with an anticompetitive intent*" simply does not rise "to the category of an abuse of the judicial process" (p. 1176

[4] Although acknowledging that the Eighth Circuit decision in *Alexander, supra,* "appears to be to the contrary" (App. A, p. 11), the Court below relied on the 30-year-old opinion in *Kobe, Inc.* v. *Dempsey Pump Co.*, 198 F.2d 416 (10th Cir.), cert. denied, 344 U.S. 837 (1952). *Kobe* does not remotely support a proposition that litigation is actionable solely on the basis of the plaintiff's subjective purpose. In any event, *Kobe* was decided long before both *Noerr* and *California Motor Transport* (and before the same Circuit's recent decision in *Hydro-Tech, supra*). See Fischel, *supra,* note 3, p. 113, pointing out that ". . . the *Kobe* doctrine . . . is presently of doubtful validity".

The other cases cited below on this issue (App. A, p. 11) are wholly inapposite. *Handgards, Inc.* v. *Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979), cert. denied, 444 U.S. 1025 (1980), involved a prior suit brought *without* probable cause. *Rex Chainbelt Inc.* v. *Harco Products, Inc.*, 512 F.2d 993 (9th Cir.), cert. denied, 423 U.S. 831 (1975), does not even mention *Noerr, Pennington,* or *California*

n.6; italics added). Moreover, "the term 'sham' is something more than a mere 'absence of probable cause'"; it "means misuse or corruption of the judicial process". (673 F.2d at 1176-77.)[5]

The Ninth Circuit adopted a similar rationale in its recent decision in *Clipper Exxpress* v. *Rocky Mountain Motor Traffic Bureau*, 690 F.2d 1240, 1254 (9th Cir. 1982), cert. denied, 51 U.S.L.W. 3607 (U.S. Feb. 22, 1983). Although denying *Noerr-Pennington* protection there because the defendants' "[b]aseless protests [had been] instituted *without regard to merit*" (italics added), the Court specifically recognized that "The fact that their intent [for filing the protests] was to prevent price competition by Clipper is not determinative."

Accord, e.g., *Litton Industries* v. *AT&T Co.*, 1982-83 Trade Cases ¶ 65,194 at p. 71,779 (2d Cir. 1983) (test is whether plaintiff had a "reasonable expectation of obtaining the favorable ruling"); *Taylor Drug Stores, Inc.* v. *Associated Dry Goods Corp.*, 560 F.2d 211, 213-14 (6th Cir.

Motor Transport. Similarly, *Dairy Foods Inc.* v. *Dairy Maid Products Cooperative*, 297 F.2d 805 (7th Cir. 1961), was decided four years before *Pennington* and eleven years before *California Motor Transport* and does not even refer to *Noerr* or a *Noerr* issue.

[5] The Tenth Circuit also made plain that the requisite "abuse" consists of more than an improper motive or intent (673 F.2d at 1176 n.6):

> "In *California Motor Transport*, the Court outlined types of abuses of the judicial process which would give rise to a cause of action under the antitrust laws. The Court mentioned perjury, use of a patent obtained by fraud to exclude a competitor from the market, bribery, conspiracy with a licensing official, and 'a pattern of baseless, repetitive claims' as examples of such abuses. 404 U.S. at 512-13, 92 S.Ct. 612-13. We believe that while these activities are only examples of the types of activities not protected by the first amendment, and, therefore, do not comprise an exclusive list, the listing thereof evidences the Court's intent to require some *abuse* of the judicial process as a prerequisite to prosecution under the antitrust laws."

1977); *International Telephone & Telegraph Corp.* v. *United Telephone Company of Florida*, 550 F.2d 287, 289 (5th Cir. 1977).

Yet, in the instant case, the Court below has ruled—in direct conflict with decisions of other Circuits—that a lawsuit brought *with* probable cause and unaccompanied by any "illegal or reprehensible" conduct is nevertheless subject to antitrust attack despite its First Amendment protection solely on the basis of a claim of an improper anti-competitive intent.

C. The Test Adopted Below Is Unworkable And Undermines First Amendment Rights To Petition And Free Speech.

The Court below recognized that its examples of "anti-competitive litigation" may be regarded by some as "fanciful" and that in all of them "the evidentiary problems of disentangling real from professed motives would be acute". (App. A, p. 10.) Nonetheless, it sets forth a standard which turns *only* on the "purpose" and which does not require proof of abusive collateral conduct directed at achieving the improper "purpose"—even where a case is brought with probable cause.

A test is therefore adopted which is admittedly difficult to apply and promises little benefit, but in its application would exact high costs from both litigants and the judicial system. Because the test is subjective, antitrust claims based on "anti-competitive litigation" will be easy to allege and may be hard to dismiss. Where a non-baseless suit is brought with probable cause and without abusive conduct, how is the subjective "purpose" to be ascertained? How can that inquiry be made without itself punishing the prior resort to the courts and necessarily chilling the exercise of First Amendment rights? To say that access to courts is a right

which is protected by the First Amendment, but can be vindicated only under a subjective test possibly requiring five to ten years of *additional* litigation, is to sap the right of any substance altogether.

Indeed, notwithstanding current bulging dockets, the panel's test virtually invites the filing of a federal antitrust action after (and possibly during) *any* business litigation between competitors. And, in these circumstances, firms knowing that prosecution of a lawsuit against a competitor may well result in expensive antitrust litigation could "feel pressured to forego the exercise of [their] first amendment right to petition courts." *Hydro-Tech Corp.* v. *Sundstrand Corp., supra*, 673 F.2d at 1177 n.8. See also *Franchise Realty Interstate Corp.* v. *San Francisco Local Joint Executive Board of Culinary Workers*, 542 F.2d 1076, 1082 (9th Cir. 1976), cert. denied, 430 U.S. 940 (1977); *Handgards, Inc.* v. *Ethicon, Inc.*, 601 F.2d 986, 996 (9th Cir. 1979), cert. denied, 444 U.S. 1025 (1980).

Even in a non-constitutional context, the author of the opinion below has previously pointed out the illusory and hazardous nature of such a test:

> "Moreover, the dependence of this approach on evidence of intent is a considerable limitation on its utility. It is extraordinarily difficult to ascertain the intent of a large corporation by the methods of litigation. What juries (and many judges) do not understand is that the availability of evidence of improper intent is often a function of luck and of the defendant's legal sophistication, not of the underlying reality. A firm with executives sensitized to antitrust problems will not leave any documentary trail of improper intent; one whose executives lack this sensitivity will often create rich evidence of such intent simply by the clumsy choice of words to describe innocent behavior. . . . Any doctrine that relies upon proof of intent is going to be applied erratically at best."

R. Posner, *Antitrust Law: An Economic Perspective* 189-90 (1976).[6]

Surely, if a test based solely on intent is unworkable in a non-constitutional context, it can only be regarded as calamitous when First Amendment rights are at stake.

D. Contrary To The Premise Of The Decision Below, An Improper Subjective Purpose For Bringing Litigation Is Wholly Insufficient To Establish The Tort Of Abuse Of Process.

The effort of the Court below to justify its novel test in terms of the state-law tort of abuse of process (App. A, pp. 7-10) is based on a misconception of the elements of that tort. Contrary to the Court's analysis, in order to establish such an abuse of process, an improper subjective purpose is clearly insufficient.

The very treatise relied on by the Court (App. A, p. 7), Prosser's *Handbook on the Laws of Torts* (1971), declares that ". . . there is no liability where the defendant has done nothing more than carry out the process to its authorized conclusion, *even though with bad intentions*" (p. 857, italics added). Prosser also points out that ". . . it is what is done in the course of negotiation, rather than the issuance or any formal use of the process itself, which constitutes the tort" (p. 857) and that ". . . the improper act may not be inferred from the motive" (p. 858).

The Prosser treatise accurately summarizes the case-law. Thus, in the case cited by the panel (App. A, p. 7), *Holiday Magic, Inc.* v. *Scott*, 4 Ill. App. 3d 962, 967, 282 N.E.2d 452, 456 (1972), the Court stated that "[s]ome act

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[6] See also the Seventh Circuit's recent opinion (per Cudahy, J., who joined in the decision below) in *MCI Communications Corp.* v. *AT&T Co.*, 1982-83 Trade Cases ¶ 65,137 (7th Cir. 1983) at p. 71,374, similarly recognizing that ". . . a test based wholly on intent is unworkable".

must be alleged whereby there has been a misuse or perversion of the process of the court" and "mere institution of a suit or proceeding, *even with a malicious intent or motive*, does not itself constitute an abuse of process." (Italics added.)

See also *Associated Radio Service Co.* v. *Page Airways, Inc.*, 624 F.2d 1342, 1358 (5th Cir. 1980), cert. denied, 450 U.S. 1030 (1981); *Energy Conservation, Inc.* v. *Heliodyne, Inc.*, 1982-83 Trade Cases ¶ 65,179 (9th Cir. 1983) at p. 71,698; Balmer, *supra* note 2 at 66-67; Note, *Limiting The Antitrust Immunity For Concerted Attempts To Influence Courts And Adjudicatory Agencies: Analogies To Malicious Prosecution And Abuse Of Process*, 86 Harv. L. Rev. 715, 732 (1973).

II

The Decision Below Denying Full Faith And Credit To The State Court's Judgment Is In Conflict With Decisions Of This Court.

As noted, Grip-Pak took no appeal from ¶ 9 of the 1974 state court judgment, which provided that ITW's "bringing and prosecuting this case was not malicious". However, more than four years later—and shortly after the filing of ITW's summary judgment motion in this case—Grip-Pak petitioned the state court to vacate ¶ 9 of the judgment. Although the petition was denied, and although the Court below acknowledged that ". . . the parties ought to be able to rely on what the judgment says in guiding their behavior" (App. A, p. 5),[7] the Court below refused to give

[7] This principle, this Court stated, "is not a factor here" because "the post-trial order was entered *shortly after* the judgment became final" (App. A, pp. 5-6; App. B) (italics added). Apparently the Court's reference is to the completion of all appellate proceedings in the state case; the relevance of that date is puzzling for this purpose, particularly since ¶ 9 was not appealed by Grip-Pak and became "final" more than four years earlier in 1974.

full faith and credit to the 1974 judgment. According to the Court, ". . . collateral estoppel should not be applied just because Grip-Pak's counsel in the state court action stumbled in trying to litigate the issue of malice" (App. A, p. 5).

However, contrary to the premise of the decision below, to give or withhold full faith and credit to express findings of a state court is not a mere matter of judicial discretion or *ad hoc* evaluation of appropriate resource allocation (see App. A, pp. 4-5). Instead, as this Court recently held in *Kremer* v. *Chemical Construction Corp.*, 102 S.Ct. 1883 (1982), the Congressional mandate of 28 U.S.C. § 1738 (*supra*, p. 2) *requires* that full faith and credit be given to such determinations. Nevertheless, although the *Kremer* decision and 28 U.S.C. § 1738 were specifically called to the attention of the Court below, both (like the *Noerr-Pennington* "sham exception") were wholly ignored in its opinion.

Kremer held that a state agency's finding sustained on judicial review is binding in a subsequent federal action and entitled to full faith and credit if the litigant has had a full and fair opportunity to present its evidence and arguments before an adjudicatory body which meets the standards of due process. There can be no doubt that Grip-Pak had such an opportunity—not merely in an administrative agency but in the Illinois courts. Grip-Pak pleaded malice, assured the court that "the proof already is in", argued it in its final argument, submitted it to the state court for determination, and obtained a ruling on it (but chose not to contest the ruling in Grip-Pak's appeal to the Illinois Appellate Court).

Grip-Pak, not ITW, must bear the consequences of Grip-Pak's litigation strategy and its failure to appeal the finding of ¶ 9. Contrary to the opinion below (App. A, p. 5), the fact

that ". . . Grip-Pak's counsel in the state court action stumbled in trying to litigate the issue of malice" affords no basis for denying collateral estoppel effect and full faith and credit to the court's finding. As this Court held in *Kremer* (102 S.Ct. at 1899): "The fact that [a plaintiff] failed to avail himself of the full procedures provided by state law does not constitute a sign of their inadequacy." Furthermore, "A party cannot escape the requirements of full faith and credit and res judicata by asserting its own failure to raise matters clearly within the scope of a prior proceeding." *Underwriters National Assurance Co.* v. *North Carolina Life and Accident and Health Insurance Guaranty Assn.*, 455 U.S. 691, 710 (1982).

CONCLUSION

For the foregoing reasons, the petition should be granted.

Respectfully submitted,

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Dated: April 11, 1983

APPENDIX A

Opinion of the United States Court of Appeals for the Seventh Circuit

In the United States Court of Appeals For the Seventh Circuit

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No. 82-1119
GRIP-PAK, INC.,

Plaintiff-Appellant,

v.

ILLINOIS TOOL WORKS, INC.,

Defendant-Appellee.

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division, No. 77 C 2688—James Parsons, *Judge.*

ARGUED SEPTEMBER 15, 1982—DECIDED NOVEMBER 24, 1982

Before CUDAHY, *Circuit Judge,* WEICK, *Senior Circuit Judge,** and POSNER, *Circuit Judge.*

POSNER, *Circuit Judge.* The plaintiff, Grip-Pak, Inc., is a company engaged in—or at least aspiring to engage in—the business of producing plastic holders for "six-packs" of beer and other beverages. The defendant, Illinois Tool Works, Inc., is alleged to be the dominant manufacturer of such holders, and in particular to

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* Of the Sixth Circuit.

manufacture 90 percent of all plastic holders for six-packs of canned beverages. The complaint, filed in 1977, charges Illinois Tool Works with a variety of practices allegedly forbidden by sections 1 and 2 of the Sherman Act and sections 3 and 7 of the Clayton Act, 15 U.S.C. §§ 1-2, 14, 18, including acquiring every patent there is on plastic beverage holders; threatening groundless patent-infringement suits to deter would-be competitors; prosecuting three "baseless and groundless lawsuits in bad faith, not for the legitimate purpose of adjudicating a legal controversy, but, rather, for an ulterior motive, i.e., to eliminate competition," one of these suits being against Grip-Pak and its principals (former employees of Illinois Tool Works) for theft of trade secrets; acquiring a competitor; dividing markets; and filing a fraudulent patent application. Treble damages and an injunction are sought.

The case comes up to us on Grip-Pak's appeal from summary judgment dismissing the complaint. The basis of dismissal was that Grip-Pak would not be able to prove at trial an essential element of its case, namely that it has been "injured in its business or property by reason of anything forbidden in the antitrust laws," as required by section 4 of the Clayton Act, 15 U.S.C. § 15. The complaint alleges injury of two sorts. The first consists of the expenses that Grip-Pak incurred in defending the suit brought by Illinois Tool Works against Grip-Pak and its principals; the other is a general loss of business profits from the totality of the alleged monopolistic scheme. The district court threw out the first element of injury on the following reasoning. Although the state court in which Illinois Tool Works had prosecuted its suit against Grip-Pak and Grip-Pak's principals had dismissed the suit on the merits, the court had entered a finding that the suit was "not malicious"; this finding is entitled to collateral estoppel effect in the present litigation; a nonmalicious lawsuit is not actionable under the antitrust laws; therefore the state court suit could not be a source of antitrust injury to Grip-Pak within the meaning of section 4 of the Clayton Act. With regard to the second and more general element of injury, the district court held that Grip-Pak

was not in the business of manufacturing plastic holders for six-packs and did not have a sufficiently definite expectation of entering it to be injured in its business within the meaning of section 4. We have to decide whether these rulings are correct.

Late in the state court trial Grip-Pak's counsel tried to present evidence that Illinois Tool Works' case was malicious. The trial court was surprised. Illinois Tool Works' counsel protested vigorously his lack of opportunity to develop evidence on the issue of malice. Grip-Pak's counsel pointed to the prayer for relief in the counterclaim, where a finding of malice, and an award of attorney's fees based on that finding, had been requested; but the judge ruled that the issue of malice, to be preserved, should have been alleged in the part of the counterclaim that contained Grip-Pak's theory of liability. Grip-Pak's counsel then changed his tune slightly, saying: "We feel the proof is already in relative to the factual evidence, the evidentiary evidence which will support our claim of malice." But the judge replied, "No, the court is not going to permit it." The antecedent of "it" is a bit vague, but the rest of the reply makes clear that the judge's intention was to forbid Grip-Pak "to assert a charge of this nature at this time." And the matter was dropped.

But when the judge came to prepare his findings of fact and conclusions of law he included a finding on malice. Despite the elimination of the issue from the trial both parties had submitted proposed findings on it, and the judge adopted the one submitted by Illinois Tool Works. But it seems that he did so in order to lay a foundation for declining to award attorney's fees as requested by Grip-Pak rather than to resolve a genuine factual issue at the trial, for he had not allowed the issue to be litigated. This interpretation is supported by an order the judge later issued denying a petition by Grip-Pak to vacate the finding on malice on the ground that he had lacked jurisdiction to make such a finding. The order states that at the trial the judge had "in substance held that under the pleadings a malice finding was not an issue," that he had "refused to permit evidence to be introduced on

said issue," that "such a ruling may well make the later finding of the Court erroneous," and that he was not saying whether in these circumstances the finding would have collateral estoppel effect in any other proceeding, but was only holding that he had jurisdiction to make the finding, erroneous though it might be. The order has a tone of blaming the parties for having submitted proposed findings on malice when the judge had ruled the issue out of the trial; and the underlying fault is Grip-Pak's for having failed to raise the issue of malice in timely fashion and then having confused the judge by nevertheless submitting a proposed finding on malice at the close of the trial.

The doctrine of collateral estoppel prevents the relitigation of any legal or factual issue that has been "actually litigated and determined by a valid and final judgment." 1 Restatement of Judgments (Second) § 27 (1982). Usually an express finding in a valid final judgment is good enough, and we have that here. And it makes no difference whether such a finding was based on a complete failure of proof rather than on a weighing of competing proofs. See, e.g., *Continental Can Co., U.S.A. v. Marshall*, 603 F.2d 590, 595-96 (7th Cir. 1979). On the other hand, a default judgment is not a proper basis for collateral estoppel. 1 Restatement, *supra*, § 27*e* at p. 257. And collateral estoppel is not properly invoked to punish a lawyer. *Id.*, § 27*e* at p. 256. We have to locate the present case in this web of principles.

It will help in doing so to note the difference between collateral estoppel and its sister doctrine, res judicata. Res judicata bars the relitigation of claims that could have been advanced in an earlier proceeding, whether they were or not, because they arise out of the same facts. The purpose is to reduce the costs of litigation, to the parties and to the courts, by forcing closely related claims to be combined in a single lawsuit. There is no suggestion that res judicata applies to this case—that Grip-Pak was required to bring its antitrust action as a counterclaim to Illinois Tool Works' state court suit. The

doctrine of collateral estoppel is based on a different concept of economy of litigation: if an issue happens to have been litigated and determined in a previous suit between the parties, there is no reason to litigate it again. But the object is not to force the issue to be litigated in the earlier suit. The propriety of having two suits is accepted, presumably because they are not that closely related; and if the issue in question is first litigated in the second suit, that is fine; the only desideratum is that it not be litigated twice.

This distinction suggests that collateral estoppel should not be applied just because Grip-Pak's counsel in the state court action stumbled in trying to litigate the issue of malice. If the only consequence of his stumble was to postpone litigating that issue to this case, there was no waste of resources. It would be different if Grip-Pak had presented evidence so lacking in probative force that the trial judge had concluded that there was an utter failure of proof on the issue of malice. Then resources would have been expended on the determination of the issue in the first case and relitigation would be barred. But that is not what happened. Grip-Pak's counsel contended in desperation that the requisite evidence had gotten into the trial somehow, but the trial judge disagreed. He thought he was preventing the issue from being litigated rather than resolving the issue on the basis of evidence already in the record.

All this assumes, though, that we are allowed to go behind the express finding in the state court's judgment and examine not only the pages of the transcript where the judge is seen blocking Grip-Pak's counsel from going forward with the issue but also the post-trial order in which the judge refused to vacate the finding but indicated that it was not intended to be an evidentiary finding. A court will not take evidence from the judge in an earlier suit to find out what his findings really meant, *Eaton v. Weaver Mfg. Co.*, 582 F.2d 1250 (10th Cir. 1978); the parties ought to be able to rely on what the judgment says in guiding their behavior. But that is not a factor here. It is not that the judge had secret reser-

vations about his judgment that did not emerge till long after it became final. Illinois Tool Works was privy to the circumstances that day behind the finding, and the post-trial order was entered before the judgment became final.

Although we believe that the issue of malice was never litigated and determined in the sense relevant to collateral estoppel, we are reluctant to stop there without considering whether, if collateral estoppel were applied, the finding that the Illinois suit was not malicious would bar Grip-Pak from seeking to recover in this antitrust suit the expenses it incurred in defending the Illinois suit. Grip-Pak points out that the finding, unelaborated as it is, implies only that the Illinois suit could not be the basis of an action for malicious prosecution under Illinois tort law; and it argues that a lawsuit does not have to violate some state's law of malicious prosecution to be actionable under the Sherman Act. We think we should address this argument now for the guidance of the parties and the district court on remand. If the argument is correct there will be no need for the parties to introduce evidence on whether the state court action was malicious; if it is incorrect, that issue may be dispositive.

The tort of malicious prosecution in Illinois has two elements that might be relevant to this case: improper purpose, and lack of probable cause to believe that the lawsuit may have merit. *Holiday Magic, Inc. v. Scott*, 4 Ill. App. 3d 962, 966, 282 N.E.2d 452, 455 (1972). One cannot tell from the state court's finding which element it thought was missing here—assuming, contrary to what we said earlier, that its finding was intended to determine an actually litigated issue. If the missing element was improper purpose, Grip-Pak's effort to characterize the state court action as anticompetitive would be devastated. A lawsuit could not be thought anticompetitive if it was no part of the plaintiff's purpose to suppress competition. But the judge may instead have thought that although the state court action was ultimately determined not to have merit, it had had enough apparent merit when brought to satisfy probable cause, which is just "a state of facts [that] would lead a man of ordinary caution and prudence

to believe that he has a justiciable claim to prosecute against a defendant." *Hulcher v. Archer Daniels Midland Co.*, 88 Ill. App. 3d 1, 4, 409 N.E.2d 412, 415 (1980). We must consider therefore whether a lack of probable cause is essential to make a lawsuit actionable under the Sherman Act.

There are two grounds on which it might be thought essential. The first is that the First Amendment confers antitrust immunity on any lawsuit that is not so totally baseless as is implied by a finding that there was no probable cause to bring it. Some courts have said that the right to bring lawsuits, even of a purely commercial character, is within the scope of the First Amendment, as a form either of petition for redress of grievances, *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 510 (1972), or of speech, *id.* at 510-11; *Hydro-Tech Corp. v. Sundstrand Corp.*, 673 F.2d 1171, 1177 n. 8 (10th Cir. 1982). But we do not believe that the extent of protection is invariant to the nature of the lawsuit—that the efforts of the National Association for the Advancement of Colored People to use constitutional litigation to break down official segregation, *NAACP v. Button*, 371 U.S. 415 (1963), are entitled to no more protection than the efforts of Illinois Tool Works to collect damages for an alleged theft of trade secrets—or, if Grip-Pak is right, to drive a competitor out of business.

If all nonmalicious litigation were immunized from government regulation by the First Amendment, the tort of abuse of process would be unconstitutional—something that, so far as we know, no one believes. The difference between abuse of process and malicious prosecution is that the former does not require proving that the lawsuit was brought without probable cause. *Holiday Magic, Inc. v. Scott, supra*, 4 Ill. App. 3d at 966, 282 N.E.2d at 455; Prosser, Handbook of the Law of Torts 856 (4th ed. 1971). If abuse of process is not constitutionally protected, no more should litigation that has an improper anticompetitive purpose be protected, even though the plaintiff has a colorable claim.

The argument that such litigation is constitutionally immune is based on two Supreme Court decisions, *Eastern Railroad Presidents Conf. v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961), and *California Motor Transport Co. v. Trucking Unlimited, supra. Noerr* held that conspiracies to influence a legislature to pass anticompetitive legislation are not actionable under the Sherman Act. The holding was presented as an interpretation of the Sherman Act rather than of the First Amendment, but one strongly influenced by the First Amendment. See 365 U.S. at 138. The Court viewed collective efforts to influence legislation, regardless of their purpose, as a form of petitioning for redress of grievances. *California Motor Transport* considered the application of *Noerr* to adjudication. The complaint alleged a conspiracy by a group of trucking companies "to institute state and federal proceedings to resist and defeat applications by respondents [competing trucking companies] to acquire operating rights or to transfer or register those rights." 404 U.S. at 509. The Court held that the complaint stated a valid cause of action under the Sherman Act. Although it said that "the right of access to the courts is indeed but one aspect of the right of petition," *id.* at 510, this statement was used as the fulcrum to lever the petitioners out of range of the First Amendment by characterizing the alleged conspiracy as one to prevent the respondents from exercising their legal rights to obtain and transfer operating rights. The Court quoted the allegation in the complaint that petitioners instituted proceedings " 'with or without probable cause,' " *id.* at 512, and also stated that "a pattern of baseless, repetitive claims may emerge which leads the factfinder to conclude that the administrative and judicial processes have been abused," *id.* at 513, but it did not say this was the only type of case in which litigation could be attacked under the antitrust laws.

It takes a rather free-wheeling imagination to extrapolate from the *California Motor Transport* opinion a principle that if applied across the board would, as we have suggested, make the tort of abuse of process invalid under the First Amendment; and we decline to do so—

noting, also, that the Court used the language of abuse of process to describe the kind of litigation activity that the First Amendment does not protect, see *id.* at 513. Cf. *Metro Cable Co. v. CATV of Rockford, Inc.*, 516 F.2d 220, 228 (7th Cir. 1975). But it is a separate question whether, as a matter of antitrust principle, the Sherman Act should be interpreted to forbid using litigation to suppress competition. The Act could not reasonably be interpreted to make companies, even ones with monopoly power, outlaws, forbidden to enforce their legal rights. And the line between effective and abusive resort to legal remedies is indistinct, especially since so many of the legal rights validly asserted in commercial settings are rights against what the law deems excessive or unfair competition. When Illinois Tool Works sued Grip-Pak and its principals for theft of trade secrets, it was asserting just such a right. Distinguishing a lawful from an unlawful anticompetitive purpose is harder than distinguishing lawful from unlawful purpose in abuse of process cases, though even there subtle distinctions abound—for example, the distinction between suing to get damages and suing to induce the defendant to discontinue the activity challenged in the suit by putting him to the expense of litigation. See *Alexander v. Unification Church of America*, 634 F.2d 673, 677-78 (2d Cir. 1980).

But we are not prepared to rule that the difficulty of distinguishing lawful from unlawful purpose in litigation between competitors is so acute that such litigation can never be considered an actionable restraint of trade, provided it has some, though perhaps only threadbare, basis in law. Many claims not wholly groundless would never be sued on for their own sake; the stakes, discounted by the probability of winning, would be too low to repay the investment in litigation. Suppose a monopolist brought a tort action against its single, tiny competitor; the action had a colorable basis in law; but in fact the monopolist would never have brought the suit—its chances of winning, or the damages it could hope to get if it did win, were too small compared to what it would have to spend on the litigation—except that it wanted to

use pretrial discovery to discover its competitor's trade secrets; or hoped that the competitor would be required to make public disclosure of its potential liability in the suit and that this disclosure would increase the interest rate that the competitor had to pay for bank financing; or just wanted to impose heavy legal costs on the competitor in the hope of deterring entry by other firms. In these examples the plaintiff wants to hurt a competitor not by getting a judgment against him, which would be a proper objective, but just by the maintenance of the suit, regardless of its outcome. See *City of Gainesville v. Florida Power & Light Co.*, 488 F. Supp. 1258, 1265-66 (S.D. Fla. 1980).

Some students of antitrust law would regard all of our examples of anticompetitive litigation as fanciful, and in all the evidentiary problems of disentangling real from professed motives would be acute. Concern with the evidentiary problems may explain why some courts hold that a single lawsuit cannot provide a basis for an antitrust claim (see Fischel, *Antitrust Liability for Attempts to Influence Government Action: The Basis and Limits of the Noerr-Pennington Doctrine*, 45 U. Chi. L. Rev. 80, 109-10 (1977))—an issue we need not face here since three improper lawsuits are alleged, and it can make no difference that they were not all against Grip-Pak. Still, we think it is premature to hold that litigation, unless malicious in the tort sense, can never be actionable under the antitrust laws. The existence of a tort of abuse of process shows that it has long been thought that litigation could be used for improper purposes even when there is probable cause for the litigation; and if the improper purpose is to use litigation as a tool for suppressing competition in its antitrust sense, see, e.g., *Products Liability Ins. Agency, Inc. v. Crum & Forster Ins. Cos.*, 682 F.2d 660, 663-64 (7th Cir. 1982), it becomes a matter of antitrust concern. This is not to say that litigation is actionable under the antitrust laws merely because the plaintiff is trying to get a monopoly. He is entitled to pursue such a goal through lawful means, including litigation against competitors. The line is crossed when his purpose is not to win a favorable judgment against a

competitor but to harass him, and deter others, by the process itself—regardless of outcome—of litigating. The difficulty of determining the true purpose is great but no more so than in many other areas of antitrust law.

In rejecting the proposition that a nonmalicious lawsuit can never violate antitrust law, we are supported by most of the cases, which are not numerous, on the question, see, e.g., *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416, 424-25 (10th Cir. 1952); *Rex Chainbelt, Inc. v. Harco Prods., Inc.*, 512 F.2d 993, 1004-07 (9th Cir. 1975), though *Alexander v. National Farmers Organization*, 687 F.2d 1173, 1200 (8th Cir. 1982), appears to be to the contrary. It is true that this circuit's decision in *Kobe*, which contains the clearest statement of the proposition that litigation having a colorable basis can still violate the antitrust laws, was decided before *Noerr* or *California Motor Transport;* but it continues to be cited with approval, see *Rex Chainbelt, supra*, 512 F.2d at 1004-05; *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 994 (9th Cir. 1979).

We conclude that the state court's enigmatic finding on malice, even if it were entitled to collateral estoppel effect in this litigation, would not be a bar to finding that Illinois Tool Works' lawsuit against Grip-Pak was an unlawful act under federal antitrust law. If Grip-Pak proves it was, it can recover damages measured by its expenses in defending that suit. See *Dairy Foods Inc. v. Dairy Maid Prods. Coop.*, 297 F.2d 805, 809 (2d Cir. 1961).

The other damages sought by Grip-Pak are the profits that it says it would have made from developing and marketing a plastic holder that would compete with holders made by Illinois Tool Works. Grip-Pak has designed, and obtained patents on, several models of plastic six-pack holders; has entered into several joint ventures looking to eventual production of Grip-Pak holders; has promoted the sale of the holders (and some have in fact been sold); but, contrary to the allegations of its complaint, has never manufactured the holders itself. When Illinois Tool Works first moved for summary judgment the district judge denied the motion because he read an affidavit submitted by Grip-

Pak to say that Grip-Pak had at last begun manufacturing holders through one of the joint ventures and had begun selling the holders in quantity; when he discovered this was not the case he granted the motion.

But it is not important whether Grip-Pak is or ever will be a manufacturer and seller of the products embodying its inventions. Manufacturers are not the only businessmen who can get damages under section 4 of the Clayton Act for competitive injury. A firm that develops and promotes new products does not forfeit the protection of section 4 by contracting out the manufacture and sale of the products to firms that specialize in manufacturing and selling rather than in development and promotion. And it is of no moment that the complaint mistakenly alleged that Grip-Pak is engaged in manufacturing its plastic holders; in modern procedure, the pleadings are required to conform to the proofs rather than the proofs to the pleadings.

Now it is true that if a manufacturer is the target of anticompetitive conduct, not every firm linked to him by the forces of demand and supply is entitled to sue for damages caused, indirectly, by that conduct. *In re Industrial Gas Litigation*, 681 F.2d 514, 519-20 (7th Cir. 1982). For example, a patent licensor who licenses the manufacture of the patented product and whose royalties are keyed to his licensee's sales or profits cannot obtain damages caused by an anticompetitive scheme that is directed at the licensee, injures the licensee's business, and by so doing reduces the licensor's royalties. See *Productive Inventions, Inc. v. Trico Prods. Corp.*, 224 F.2d 678 (2d Cir. 1955); *SCM Corp. v. Radio Corp. of America*, 407 F.2d 166 (2d Cir. 1969); 2 Areeda & Turner, Antitrust Law § 341 (1978).

This is the application of the age-old tort principle of remoteness of damage to the novel statutory tort created by the federal antitrust laws. The tort principle serves practical goals of preventing duplicate recovery of damages and proliferation of lawsuits. Its operation is illustrated by *Rickards v. Sun Oil Co.*, 23 N.J. Misc. 89, 41

A.2d 267 (1945). Sun Oil Company negligently destroyed the only bridge linking an island to the mainland. Merchants located on the island, including Rickards, lost business, and five of them sued Sun Oil. The court held that their loss was too remote. The owner of the bridge could of course sue for his loss. But if the island merchants had also been allowed to sue, Sun Oil might have ended up being liable for more than the total damages it had caused, since those merchants' losses may well have been gains to mainland merchants to whom consumers switched when they no longer could reach the island. And even if the island merchants sustained losses not made up elsewhere in the economic system, those losses were no different from the losses suffered by many others who depended on the bridge. Therefore, if the five island merchants could sue, it would mean that the destruction of the bridge could give rise to an indefinite number of lawsuits, of marginal significance in terms of the deterrent and compensatory objectives of tort law compared to the suit by the bridge's owner, but potentially of great cumulative cost to Sun Oil and the judicial system.

The patent license case is an even stronger illustration of the reasons behind the doctrine of remoteness of damage. The patent licensor may have suffered no net diminution in his royalties at all. The contraction in the business of the licensee who was the target of an anticompetitive scheme may have led to an expansion in the business of other licensees and hence to an increase in the royalties paid by them to the licensor that offset the decrease in the royalties paid by the first licensee. And if the licensor were allowed to sue, why not everyone else whose fortunes are linked to the victimized licensee—or, if not everyone, at least the licensee's employees, his (other) suppliers, and the merchants who sell to his employees? None of these is more remote from the antitrust violation than the licensor.

But it does not follow from all this that a patent licensor may never get antitrust damages. It is not his status as a licensor but his relationship to the violation that determines his right to sue. If he is the defendant's

target, he stands in the same relation to the defendant as the owner of the bridge did to the defendant in *Rickards*, and the tort principle of remoteness, absorbed by implication into section 4, would not prevent him from suing. Though we acknowledge the contrary intimations in *Shapiro v. General Motors Corp.*, 472 F. Supp. 636, 656 (D. Md. 1979), and *Pastor v. American Tel. & Tel. Co.*, 76 F. Supp. 781, 784 (S.D.N.Y. 1940), the facts of those cases are far different from those of this one.

If the allegations of the complaint are true, which for present purposes we must assume they are, Illinois Tool Works is determined to prevent anyone else from competing with it in the plastic six-pack holder business and, having identified Grip-Pak and its principals as significant potential competitors, is trying to keep it and them out of the business. On this theory it is a matter of indifference to Illinois Tool Works whether Grip-Pak manufactures holders or licenses others to do so. The important thing is Grip-Pak's invention. That is what Illinois Tool Works allegedly is trying to destroy. If the inventor, when he is the target of the anticompetitive scheme and not just an innocent bystander, may not sue for damages, anticompetitive behavior may go undeterred by threat of private damage action. For unless the manufacturers of the product under license have resources specialized to the manufacture of that product, they may not suffer any damages at all from the withdrawal of the product from the market; they may be able to switch without cost to making something else.

All this is not to say that Grip-Pak has in fact sustained any damages as an inventor or developer or marketer from the alleged anticompetitive scheme. That depends among other things on the terms of the contracts between Grip-Pak and its licensees. We hold only that Grip-Pak is not barred from recovering damages merely because it is not a manufacturer. We go further: Grip-Pak may be able to recover lost profits as a manufacturer even though it has not yet started manufacturing, if it had reasonable prospects of doing so which Illinois Tool Works snuffed out. Section 4 of the Clayton Act is not a bar. It does limit the damages

recoverable in an antitrust case to those resulting from injury to the plaintiff's "business or property," which has been understood to limit damage liability to the plaintiff's direct pecuniary losses. If predatory pricing caused the president of the firm that was the predator's victim to commit suicide, his widow would not have a cause of action against the predator under section 4 for loss of consortium. This principle is again linked to traditional tort notions of remoteness of damage, as illustated by such cases as *Kelley v. Kokua Sales & Supply, Ltd.*, 56 Haw. 204, 532 P.2d 673 (1975). A man died of a heart attack after being told in a long-distance telephone conversation that his daughter and one of his granddaughters had been killed in an accident, and the court held that his estate could not get damages against those tortiously responsible for the accident. Such cases do not bear on a case where an antitrust violation snuffs out a potential competitor before he gains a foothold, though he may have invested much money in preparing to enter the violator's market and may have given up lucrative opportunities in other fields. There would be a big gap in the damage remedies of the antitrust laws if the reference to "its business" in section 4 were read to prevent the recovery of damages by all would-be entrants.

But there is also a big problem of quantifying lost hopes. While damages for loss of future earnings and profits are familiar items in tort and contract cases, the problem of measurement is greater when the loss occurs in a market that the plaintiff is not yet in. Yet tort analogies are again helpful. We had occasion to observe recently that "if a man who had never worked in his life graduated from law school, began working at a law firm at an annual salary of $35,000, and was killed the second day on the job, his lack of a past wage history would be irrelevant to computing his lost future wages." *O'Shea v. Riverway Towing Co.*, 677 F.2d 1194, 1198 (7th Cir. 1982).

In an attempt to balance the interest in deterrence against the concern with measurement, most courts (ours has not spoken to the issue before) have required a company that has not actually entered the market to show that

it intended to enter and was prepared to do so within a reasonable time, if it wants to collect damages under section 4 for being excluded. See, e.g., *Martin v. Phillips Petroleum Co.*, 365 F.2d 629 (5th Cir. 1966); *Huron Valley Hospital, Inc. v. City of Pontiac*, 666 F.2d 1029, 1033 (6th Cir. 1981); *Fleer Corp. v. Topps Chewing Gum, Inc.*, 415 F. Supp. 176, 179-81 (E.D. Pa. 1976); 2 Areeda & Turner, *supra*, § 335c at 174-75. This seems a sensible requirement which we adopt for this circuit without having to explore its precise dimensions in this case. In his first opinion the district judge found sufficient evidence of Grip-Pak's serious and imminent interest in manufacturing its plastic holders —a natural evolution from its joint ventures—to create a genuine issue of material fact, which barred summary judgment. On reconsideration he decided there was no such issue, because contrary to his original impression Grip-Pak had not yet begun to manufacture its plastic holders. But this in itself would not be determinative; the whole purpose of the "intention and preparedness" test is to allow recovery of damages in cases where the plaintiff has not entered the business in which he is seeking lost profits. Grip-Pak's evidence of intention and preparedness is quite thin; and the district judge may have been correct in concluding on reconsideration that it did not create a triable issue. But he did not apply the correct standard on reconsideration, and he must therefore reconsider once again in light of this opinion.

Illinois Tool Works argues that there is an alternative ground for the district judge's dismissal of the complaint: misrepresentations by Grip-Pak. We said earlier that Grip-Pak had presented in opposition to the initial motion for summary judgment an affidavit which the judge interpreted as stating that Grip-Pak had at last begun to manufacture plastic holders. When Illinois Tool Works moved for reconsideration of the judge's denial of its motion for summary judgment, on the basis that the affidavit was misleading, it also asked for sanctions for the alleged misrepresentation, including dismissal of the complaint. The opinion granting summary judgment on reconsideration states:

"Defendant's motion to reconsider [the denial of summary judgment] is granted and defendant's motion for contempt and sanctions for plaintiff's misrepresentation to the court is granted to the extent that the case will be dismissed." Illinois Tool Works asks us to punctuate this sentence by placing a comma after the first "granted." But a more plausible reading is that the judge granted just the motion for summary judgment, in light of his revised understanding of the affidavit; for he does not discuss the question whether an appropriate punishment for Grip-Pak's wrongdoing would be to dismiss the complaint, assuming summary judgment were improper. Moreover, while he describes the reference to manufacturing in the affidavit as an "affirmative misstatement," the judge also states that "it would be extremely reactive" to describe his misunderstanding as the result of "purposeful deception" and he therefore "decline[s] to assert the severe sanctions suggested by the defendant." To dismiss a possibly meritorious complaint with prejudice (the dismissal in the summary judgment is described as being "with prejudice") would be a severe sanction.

So we do not think we can uphold dismissal of the complaint as a sanction imposed by the district judge for the misleading affidavit. On remand Illinois Tool Works can if it wants renew its motion for sanctions. We express no view on the merits of the motion and of course none on the underlying merits of the lawsuit. We hold only that the complaint should not have been dismissed on the grounds advanced in the motion for summary judgment. We repeat that the district judge is free to reconsider the part of his order granting summary judgment that bars Grip-Pak from obtaining damages for lost manufacturing profits.

Reversed and Remanded.

A true Copy:
Teste:

Clerk of the United States Court of Appeals for the Seventh Circuit

APPENDIX B

Order of the United States Court of Appeals for the Seventh Circuit

United States Court of Appeals

For the Seventh Circuit

Chicago, Illinois 60604

January 12, 1983

Before

Hon. RICHARD D. CUDAHY, Circuit Judge
Hon. PAUL C. WEICK, Senior Judge*
Hon. RICHARD A. POSNER, Circuit Judge

GRIP-PAK, INC., *Plaintiff-Appellant*, vs. No. 82-1119 ILLINOIS TOOL WORKS, INC., *Defendant-Appellee*.	**Appeal from the United States District Court for the Northern District of Illinois, Eastern Division. No. 77 C 2688 James Parsons, *Judge*.**

ORDER

On December 15, 1982, defendant-appellee Illinois Tool Works, Inc., filed a petition for rehearing with suggestion for rehearing *en banc*. All of the judges of the original panel have voted to deny the petition, and none of the active members of the court has requested a vote on the suggestion for rehearing *en banc*. The petition is therefore DENIED.

The opinion is AMENDED as follows:

Page 6, line 1. The word "before" should be changed to read "shortly after."

Page 7. The third sentence in the first full paragraph is changed to read as follows: "Some decisions state that the right to bring lawsuits, even of a purely commercial character, is protected by the First Amendment. . . ."

Page 11. In line 9 of the first full paragraph, the words "this circuit's decision in" should be deleted. And in the second to last line of the next paragraph on this page, "2d" should be changed to "7th."

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* Of the Sixth Circuit.

APPENDIX C

Memorandum Opinion and Order
United States District Court
for the Northern District of Illinois

In the United States District Court
for the Northern District of Illinois
Eastern Division

GRIP-PAK, INC., *Plaintiff*, vs. ILLINOIS TOOL WORKS, INC., *Defendant.*	No. 77 C 2688

MEMORANDUM OPINION AND ORDER

The court vacates its September 21, 1981 Memorandum Opinion and Order denying defendant Illinois Tool Work's ("ITW") motion for summary judgment against plaintiff Grip-Pak, Inc. ("Grip-Pak"). Defendant's motion to reconsider is granted and defendant's motion for contempt and sanctions for plaintiff's misrepresentation to the court is granted to the extent that the case will be dismissed. The reasons follow.

In its September 21, 1981 opinion, the court rested its decision to deny summary judgment on the following grounds: 1) the Court found that there remained a material question of fact whether ITW's purpose in bringing the suit against Grip-Pak was sham litigation; 2) the Court found as a matter of law that Grip-Pak had demonstrated preparedness to enter a market and was thus a protectable business interest under Section 4 of the Clayton Act; 3) the Court found that Grip-Pak had sustained injury from an anti-competitive sham litigation resulting in the damage of litigations costs, a matter which is cognizable under Section 4 of the Clayton Act. The court did not reach the issue of whether the state court suit, *ITW* v. *Kovac*, in the Circuit Court of Lake County, Illinois, was res judicata with respect to the present suit.

In reexamining the sham litigation issue, the Court now finds that the doctrine of res judicata does serve to prevent Grip-Pak from relitigating this issue. Under the doctrine of res judicata when there is a valid, final judgment, "such judgment constitutes an estoppel, between the same parties or those in privity with them, as to matters that were necessarily litigated and determined although the claim or demand in the subsequent action is different." 1B Moore's Federal Practice ¶ 0.405 at 621 (2d ed. 1974).

The Court now finds that the issue of whether ITW's bringing the state court suit was a sham and constituted baseless litigation, was indeed decided in that same state court suit. In the state case, Grip-Pak sought in its answer to ITW's complaint and again in its proposed judgment a finding that ITW had maliciously sued Grip-Pak and that the complaint had been brought without reasonable cause, good faith or truth. Grip-Pak counter-claimed for malicious prosecution. The state court denied the counter-claim and held that ITW had not brought the suit maliciously. Grip-Pak did not appeal this determination, but did appeal from the denial of a post-trial motion seeking costs for defending against allegations of breach of confidentiality. The Appellate Court did not overturn the trial court's determination.

This court, when considering the question of the state litigation in arriving at its first decision unfortunately was lured away from the issue of estoppel and the importance of that issue, by the breadth of the discussions in the briefs of the parties of the Noerr-Pennington "doctrine". This preoccupation with that legal theory absorbed the bulk of ITW's own attention also. In its brief filed May 19, 1978, it devoted 12 pages discussing the Noerr-Pennington "doctrine", and only approximately 3½ pages on the issue of estoppel. Indeed its approach to the question involved was to demur from the issue which logically a demurrer ought to have been taken.

It thus has been a total re-evaluation of the matter of the prior litigation which has led this court to its present conclusion: That plaintiffs are in fact and at law estopped from pursuing here the question of "sham litigation" in the state case.

In its original opinion the court's finding of "preparedness", and hence the finding of a business interest protectable under Section 4 of the Clayton Act, was premised on Grip-Pak's representation through the affidavit of one of its officers, Michael Kovac, that it was fully engaged in the production and sale of Grip-Pak multi-packaging carrier devices, I now find that representation to be untrue. The misrepresentation led the court to assume that the joint venture agreement between the plaintiff, Grip-Pak, Inc. and Atlas Plastics Corporation, to develop, manufacture, sell and license multipackaging products, and to lease assembly equipment and license patents and trademarks, was still in effect at the time of the filing of the Kovac affidavit—April 9, 1981—and that the three purchase orders attached to the affidavit represented sales made by the plaintiff Grip-Pak, Inc. This assumption was incorrect.

The misrepresentation is manifested on page 2 of Michael Kovac's affidavit when he stated:

> However, all production problems have now been solved, and *GRIP-PAK, INC.*, through a manufacturing and marketing arrangement with Atlas Plastics Corporation and affiliates, has now begun production and sale of Grip-Pak multi-packaging carrier devices.
>
> Attached hereto are copies of actual purchase orders for GRIP-PAK multi-packaging carrier devices received from customers. . . . These carriers have been produced and *sold* to the following customers: . . . . (Emphasis added.)

Upon review of the documents the court now finds that it was not Grip-Pak, Inc., the plaintiff in this case, that obtained and filled the three purchase orders, but Grip-Pak Products, Inc. a wholly owned subsidiary of Atlas Products. This is clear from the November 12, 1981 deposition of Morten Christensen, the president of Atlas Plastics Corporation. The three purchase orders were addressed respectively to Grip-Pak, Inc., Grip-Pak, and Grip-Pak Systems Inc. The invoices were on forms bearing the name Grip-Pak Products, Inc. and two of the three invoices were dated after the date of the Kovac affidavit. It was mislead-

ing for Mr. Kovac to state in Paragraph 3 of his affidavit that Grip-Pak, Inc. (the plaintiff herein) had begun production and sale of these carriers, to attach purchase orders for these devices and refer to them in Paragraph 4 as illustrative of the representation made in Paragraph 3, when in fact the invoices evidencing sale and shipment of the carriers were those of a wholly owned subsidiary of Atlas Plastics Corporation, in which Grip-Pak had no ownership interest and with whom an earlier joint venture agreement had terminated in December of 1980. The affirmative misstatement by Kovac that Grip-Pak, Inc. was manufacturing and selling the carrier devices in question plus the purchase-order addressees misled the court into believing that plaintiff Grip-Pak, Inc. was itself still in a joint venture with Atlas Plastics, Inc. and had made three sales. In addition, at the time of the affidavit, only one sale had actually been consummated which was to Coca Cola Bottling of St. Louis—its purchase order was filled by the April 1, 1981 duplicate invoice of Grip-Pak Products, Inc. The record is clear that the joint venture agreement between Atlas Plastics, Inc. and Grip-Pak, Inc. referred to in both briefs of the plaintiff and in the Kovac affidavit, had already been terminated in December of 1980; yet the court was thus invited to believe in its continued existence. The obvious result if not purpose of these misrepresentations was to mislead the court into believing that Grip-Pak, Inc., which is the lone plaintiff in this case, itself had made three actual sales of the carriers involved in the litigation.

Of course, the court's final finding in its September 21, 1981 decision to the effect that Grip-Pak, Inc. had suffered the injury of litigation costs with respect to Section 4 of the Clayton Act has to be vacated because of the above present finding that the state court suit did not constitute sham litigation.

ITW has moved for the court to find Grip-Pak, Inc. in contempt and to impose sanctions in view of the misrepresentations made to the court. The possibility that the statements in the Kovac affidavit and purchase orders would mislead the court was high. The purpose of an affidavit is

to present evidence the court can rely upon. The use of the words "subscribed and sworn to" is to impart the same assurances to the trier of fact as does the oral oath which promises "the truth, the whole truth, and nothing but the truth". Although in his affidavit Mr. Kovac was appearing as a witness for himself as the principal of a party in interest, and not as an attorney-at-law and member of the bar of this court, though in fact he is, his representations in his earlier affidavits of his position within the legal profession understandably would cause the trier of fact to rely more comfortably upon his sworn statements than upon those of an ordinary witness or the principal of a corporate party to this litigation.

It would be excessively reactive on the part of the Court for it to find from the materials before it that these two areas in which it considers itself to have been misled were products of purposeful deception, since sharper perceptiveness on the part of the court could have aided it in arriving at a different decision than that of September 21, 1981 without the assistance given by defendant's motions to reconsider. For that reason the Court itself accepts blame for the erroneous position taken by it in September, and declines to assert the severe sanctions suggested by the defendant. Under the circumstances its action taken herein is sufficient. The order heretofore entered on its memorandum of opinion is vacated. The court finds for the defendant on its motion for Summary Judgment for the reasons set out in said motion. Accordingly, the case is dismissed. The dismissal is "with prejudice".

ENTER:

/s/ James B. Parsons

JAMES B. PARSONS
United States District Court Judge

DATED: December 29, 1981